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C O N F I D E N T I A L SECTION 01 OF 03 KATHMANDU 001580

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SUBJECT: FINANCE MINISTER CONCERNED ABOUT ESCALATING
ELECTION COSTS

Classified By: Classified By: Ambassador Nancy J. Powell. Reasons 1.4
(b/d).

Summary

¶1. (C) On August 20, Nepali Finance Minister Dr. Ram Sharan Mahat told the Ambassador, USAID Director Beth Paige and visiting senior Senate Appropriations Committee staffer Tim Rieser that the Government of Nepal (GON) anticipated a shortfall of approximately USD 30 million in funds for the Constituent Assembly election. The Ministry planned to hold a donor meeting in the near future to seek additional international support to meet the rising anticipated costs. The Ambassador asked the Finance Minister about the status of the World Bank's stalled financial reform project and the Asian Development Bank's bungled Melamchi water supply project. The Ambassador stressed the need for the GON to honor agreements and emphasized the potential damage to donor's confidence. The Minister acknowledged the importance of finding acceptable solutions and stated that many Nepali institutions operated under outside "influence." The USAID Director told Mahat that the Ministry had been a strong collaborative partner and she looked forward to working with the Ministry in the future. Rieser underscored the importance of the election and emphasized that the GON and the Ministry needed to do everything possible to ensure that the election took place in November. The Minister acknowledged the CA election was a critical exercise in establishing the GON's legitimacy. Mahat emphasized that security and the Maoists' behavior were major concerns. In response to the Ambassador's inquiry, Mahat noted that he was 90 percent certain the Nepali Congress parties would unite prior to the election.

Election Costs Rising

¶2. (C) In an August 20 meeting, Nepali Finance Minister Dr. Ram Sharan Mahat told the Ambassador, USAID Director Beth Paige and visiting senior Senate Appropriations Committee and Leahy staffer Tim Rieser that the Government of Nepal (GON) had committed NPR 10.5 million (approximately USD 1.6 million) to cover Constituent Assembly (CA) election expenses. Mahat anticipated, however, a large shortfall of

approximately USD 30 million. The Finance Minister explained that preparations for the election were costing more than expected. He emphasized that the Election Commission's instructions to hire, train and equip 70,000 additional temporary police alone was estimated to cost over USD 4 million. The Minister stated that a donor meeting would be arranged in the near future to request additional international support.

Donor Confidence At Risk

¶3. (C) The Ambassador asked Mahat about the status of the World Bank's Financial Reform Project and the Asian Development Bank's Melamchi water project. (Note: Both projects have been stalled and jeopardized by the GON's refusal to sign private management contracts. End Note) The Ambassador stressed that the Maoist Minister's unilateral action to halt completion of a management contract had not only delayed the much needed Melamchi water supply project, but had also weakened donor and investor confidence. Mahat conceded that it was a mistake, and noted that the outspoken Maoist Minister for Physical Planning and Works, Hisila Yami, who was a the heart of the controversy, had "learned a lot." Mahat was hopeful that by November there would be new bids for the management contract and the project would only be delayed by one year.

Financial Reform Jeopardized

¶4. (C) Mahat stated that the World Bank's Financial Reform
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project was under "control." He explained that the state-owned banks being restructured under the program had been under foreign control for over five years. He stressed that there was a great deal of "popular pressure" to put a Nepali management team in place. Mahat stated the GON was prepared to extend the current management contract six months, but unanswered questions remained about which company would be under contract, the original contractor or its assignee. In the interim, Mahat noted that the Nepali Rastra Bank (NRB) (Nepal's Central Bank) had taken over management of the banks. The Ambassador asked the Minister about the recent ouster of the NRB Governor. Mahat stated that he expected the Governor to be cleared the week of August 27 when his trial was scheduled to begin. The Minister commented that many Nepali institutions were "immature" and worked under outside "influence."

USAID and Finance Ministry Enjoy Good Cooperation

¶5. (C) USAID Director Beth Paige emphasized that the Ministry had been a strong and collaborative partner for the U.S. Mission and that she looked forward to working with Minister Mahat. Paige informed the Minister that a new Memorandum of Understanding and funding agreements regarding U.S. assistance would soon be ready for execution.

Rieser Emphasizes Importance of Election

¶6. (C) Senate staffer Tim Rieser emphasized that it was a critical time in Nepal and that it was very important for the GON and the Ministry to do everything possible to ensure that the election took place in November. The Minister acknowledged that the GON had already spent a huge amount of money on election preparations and if the election did not take place, it would be a huge loss. Mahat identified two critical factors: the Terai issue and the Maoists. Mahat believed that the issues in the Terai could be resolved through dialogue. Once an agreement was reached with Upendra Yadav, Chairman of the Madhesi People's Rights Forum (MPRF),

Mahat believed that the other splinter groups would come around. Mahat suggested any remaining violent factions would be dealt with "ruthlessly." The Minister noted that the people in the Terai would be electing a larger number of representatives than ever before. He explained that the real problems were in the "Mithila Belt" (a region stretching from the central Terai District of Bara eastward through Rautchat, Sarlahi, Mahottari, Dhanusa, Siraha, Saptari and Sunsari Districts.) Non-violent groups, Mahat explained, were dominate in the rest of the Terai. The Maoists, on the other hand, Mahat stressed, would do everything possible to thwart the election. The Minister stated that he believed the Maoists were attempting to mobilize the lower labor classes to create havoc and disrupt the election.

Nepal Congress Party Unification Likely

¶17. (C) The Ambassador questioned the Minister about the possible unification of the Nepal Congress (NC) party with the splinter Nepal Congress-Democrat (NC-D) party and public perceptions that the Congress parties were also looking to delay the election. Mahat stated that he was 90 percent certain that the party would unify. He stated that Prime Minister Koirala and She Bahadur Deuba, President of the NC-D, both knew very well the time frame and the consequence of failing to find compromise and unite the party.

Comment

¶18. (C) Mahat recognizes the consequences of a failed election and is prepared to do what he can to support the election. However, it seems uncertain to us whether the GON will successfully find an additional USD 30 million from the

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international community for this purpose. Moreover, it is unclear whether the GON could effectively utilize such a large amount of additional funds with less than 100 days until the election. Mahat's analysis of a Maoist strategy to mobilize the labor class may be accurate, but is not new. To date the GON and other political parties have failed to find an effective response to Maoist aggression. One of the most important would be for the other parties to get out into the countryside; something they have thus far largely failed to do. In addition, the Minister's analysis of the situation in the Terai appears a bit simplistic. Post is not so certain that all of the groups can be pacified so easily and is uncomfortable with the prospects of the "other" groups being dealt with "ruthlessly." Finally, the Ministry's response regarding the World Bank and ADB development projects may be overly optimistic. Both the World Bank and ADB may be unwilling to hand over multi-million dollar projects to 100 percent Neapli management teams. Both organizations have emphasized the need for a foreign presence that can remain immune to outside pressure.

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